LEGISLATIVE SERVICES AGENCY

OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7955 | **DATE PREPARED:** Jan 7, 2001
BILL NUMBER: HB 1771 | **BILL AMENDED:**

SUBJECT: EDGE credits for business retention.

FISCAL ANALYST: Diane Powers
PHONE NUMBER: 232-9853

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill provides that the economic development for a growing economy (EDGE) tax credit may be awarded under certain circumstances for the retention of jobs in Indiana. The bill provides that the credit may apply only to jobs in Indiana that would, without the granting of the credit, be relocated to another state. It eliminates the requirement that an applicant that proposes a project to create new jobs in Indiana must verify that the applicant has considered locating the project in at least one other state. The bill also requires an applicant to meet certain other conditions before the EDGE credit may be awarded and requires the applicant to enter into a development agreement with the EDGE board. The political subdivisions affected by the potential relocation of jobs are required to match at least one dollar of local incentives for every two dollars in EDGE credits.

Effective Date: Upon passage.

Explanation of State Expenditures: This bill may increase the amount of EDGE credits awarded annually as a greater number of businesses would be eligible for the credit. Currently, only businesses creating new jobs may apply. Under this proposal, businesses that would preserve jobs may also apply. This broader eligibility may expand the applicant pool, creating additional demands on the Indiana Department of Commerce (IDOC) which provides administrative support to the EDGE Board. The Department should be able to meet these demands given its current budget and resources.

The State Budget Agency (SBA) is also required to certify that EDGE credit awards will provide an overall positive fiscal impact to the state. An expanded applicant pool may increase the number of EDGE studies performed by the SBA, however, the impact is not expected to be significant.

Explanation of State Revenues: The original goal of the EDGE program was to provide a revenue-neutral incentive for businesses to create new investment and jobs in Indiana. Businesses receive credits based on the individual income taxes withheld for employees filling the newly created positions. However, the total amount of credits granted cannot exceed the total amount of withholding taxes generated. Since taxes paid for these employees would not have been collected in the absence of the new development, the state would not incur a net loss by redistributing incremental income tax revenue as EDGE credits. Currently, applicants must verify that at least one other state is being considered for the firm's location and that a significant cost disparity exists between siting in Indiana versus the other state. This proposal would remove these requirements for EDGE applicants when proposing to create new jobs.

This bill also extends eligibility for EDGE credits to businesses that, in the face of economic incentives offered by at least one other state, elect to retain employment in Indiana. No credits can be claimed for jobs that have been relocated from one site within Indiana to another. In addition, the eligible business must meet certain conditions, including:

(1) being classified as engaged in research and development, manufacturing, or business;
(2) providing compensation equal to at least 125% of the average compensation in the county where the firm is located; and
(3) employing at least 200 individuals in Indiana.

The amount of EDGE credits granted would be based on, but not limited to, the total withholding taxes for employees whose jobs are being retained. The EDGE Board would have final approval of the actual amount. No new revenue would be realized since no new jobs would be created. Credits would then be paid from existing revenues, resulting in a net loss to the state equal to the amount of EDGE credits granted to these businesses. However, if the firm chose a more profitable alternative and moved out of Indiana, there could be an even greater loss of revenue from the reduction in individual and corporate income taxes.

EDGE credits may be taken against a taxpayer's Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Bank Tax, Savings and Loan Association Tax, Insurance Premium Tax, or Financial Institutions Tax liabilities. The duration of the credit may not exceed ten taxable years and if the amount exceeds a taxpayer's liability in a given year, the excess is refundable. In 1999, the EDGE Board approved $133.1 M in new credits (to be taken over several years) for twelve companies with the expectation of 10,177 new jobs being created. The IDOC estimates that approximately $11.6 M in credits may be taken in the 1999 tax year for all projects approved from 1994 to date.

Both individual and corporate income taxes are distributed to the General Fund. A percentage of corporate Adjusted Gross Income Tax revenue is also distributed to the Property Tax Replacement Fund. This bill may impact revenue collections beginning in FY 2002.

Explanation of Local Expenditures: For EDGE credits to be granted for job retention, the bill requires political subdivisions to have matched a minimum of one dollar in local incentives for each two dollars in EDGE credits. Local incentives may include cash grants, infrastructure improvements, tax abatements, investments in facility rehabilitation, and construction.

Explanation of Local Revenues:

State Agencies Affected: Indiana Department of Commerce, EDGE Board, State Budget Agency.

Local Agencies Affected:

Information Sources: Christina Casper-Cozzolino, Indiana Department of Commerce, (317) 233-3397.